



Patrick W. Henning, Director



Arnold Schwarzenegger
Governor

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Ms. Cynthia D. Banks, Chief Deputy Director
County of Los Angeles
Department of Community and Senior Services
3175 West Sixth Street, Suite 300
Los Angeles, CA 90020

Dear Ms. Banks:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2006-07

This is to inform you of the results of our review for Program Year (PY) 2006-07 of the County of Los Angeles Department of Community and Senior Services' (LADCSS) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Mechelle Hayes and Ms. Anne Schoefer from June 4, 2007, through June 15, 2007. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, cost/resource sharing, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, and contract terms and agreements and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by LADCSS with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2006-07.

We collected the information for this report through interviews with representatives of LADCSS, a review of applicable policies and procedures, and a review of

documentation retained by LADCSS for a sample of expenditures and procurements for PY 2006-07.

We received your response to our draft report on February 25, 2008, and reviewed your comments and documentation before finalizing this report. Because your response adequately addressed finding 9 cited in the draft report, no further action is required and we consider the issue resolved. Additionally, LADCSS response adequately addressed findings 3, 8, and 13 cited in the draft report and no further action is required at this time. However, these issues will remain open until we verify the implementation of LADCSS' stated corrective action plan during a future onsite review. Until then, these issues are assigned Corrective Action Tracking System (CATS) numbers 70366, 70371, and 70376, respectively.

However, LADCSS' response did not adequately address findings 1, 2, 4-7, or 10-12 cited in the draft report and we consider these findings unresolved. We requested that LADCSS provide the Compliance Review Division (CRD) with additional information and/or a corrective action plan to resolve the issues that led to the findings. Therefore, these finding remain open and have been assigned CATS numbers 70364, 70365, 70367-70, and 70373-75, respectively.

BACKGROUND

The LADCSS was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2006-07, LADCSS was allocated: \$11,115,285 to serve 2,264 adult participants; \$11,605,031 to serve 2,880 youth participants; and \$9,691,097 to serve 1,350 dislocated worker participants.

For the quarter ending March 31, 2007, LADCSS reported the following expenditures and enrollments for its WIA programs: \$6,086,337 to serve 1,750 adult participants; \$4,619,396 to serve 2,277 youth participants; and \$5,720,983 to serve 1,238 dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, LADCSS is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the following areas: expenditure reporting, program/administration costs, cost allocation, contract payments, resource sharing agreements (RSA), subrecipient fiscal monitoring, audit resolution, debt collection, and incident reporting. The findings that we identified in these areas, our recommendations, and LADCSS' proposed resolution of the findings are specified below.

FINDING 1

Requirement: 20 CFR Section 97.20(b)(1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

20 CFR Section 667.300(b)(1) states, in part, that a State may impose different forms or formats, shorter due dates, and more frequent reporting requirements on subrecipients.

WIA Directive WIAD06-4 states, in part, that all WIA grant recipients are required to report expenditures on an accrual basis and must submit quarterly expenditure reports. Quarterly expenditures (including accruals) and obligations must be reported on a cumulative basis and a separate expenditure report must be filed for each line item or grant code. Additionally, accrued expenditures and cash expenditures must be reported separately in quarterly reports.

LADCSS' subrecipient contract provision, Section 803 states, in part, that subcontractor monthly financial reports are due by the tenth working day of the month, following the month covered in the report.

Observation: We reviewed the expenditure report for the Adult program for the quarter ending March 31, 2007, and found that LADCSS did not report accrued expenditures. Specifically, LADCSS did not report accrued expenditures for salaries, rent, utilities, office supplies, and contractor invoices. Moreover, we reviewed LADCSS' internal expenditure reports for March 2007, and confirmed that LADCSS did not include the March actual expenditures in the cumulative total expenditures reported in the March 31, 2007 quarterly report. We reported a similar issue in the PY 2005-06 monitoring report.

In addition, we found that LADCSS' subrecipients are not reporting monthly to LADCSS as required by their contracts with LADCSS. For the quarter ending March 31, 2007, 17 of 20 adult service providers did not submit their March monthly financial reports to LADCSS. One subrecipient, City of Compton, had not submitted a monthly invoice since November 2006. Therefore,

LADCSS is not reporting subrecipient accruals and actual cash expenditures for most of its subrecipients.

Finally, we found that LADCSS did not include its MIS indirect costs in its financial reports for quarters ending December 2006 and March 2007.

Recommendation: We recommended that LADCSS provide the Compliance Review Division (CRD) with a corrective action plan (CAP), including timelines, stating how it will ensure, in the future, that it reports all expenditures, including accruals, for both LADCSS and its subrecipients.

LADCSS Response: The LADCSS stated that it did not report under the accrued line item of the State expenditure because the system did not allow LADCSS to do so. Instead LADCSS reported both its actual expenditures for January and February and its accruals for March on the cash expenditure line.

The LADCSS reported accrued expenditures for the month of March instead of actual expenditures since actual expenditures were not available by the State report due date.

The LADCSS stated that its March 2007 invoices were submitted late as reported; however LADCSS did do an analysis and report accrued expenditures for these agencies in the third quarter report to the State. Additionally, LADCSS has acknowledged and corrected the oversight of not reporting the MIS indirect costs in its December 2006 and March 2007 reports to the State.

On February 4, 2008, LADCSS sent a directive to its WIA contractors relating to their need to report accruals on a quarterly basis.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. The LADCSS did not provide the specific documentation to support the amount reported as accrual costs. Although LADCSS' February 4, 2008 directive requires its WIA contractors to report quarterly accrual figures, the issuance of this directive alone will not provide the State with the needed financial information if the contractors do not report timely to LADCSS. The LADCSS response does not specify the actions it will take in instances where contractors do not provide expenditure

information to be included in LADCSS' reports to the State. In addition, its response did not specify procedures to ensure that it reports its own accruals. We, again, recommend that LADCSS provide CRD with a CAP to ensure that, in the future, it reports all expenditures, including cash expenditures, accruals, and MIS indirect costs, for both LADCSS and its subrecipients. Until then, this issue remains open and has been assigned CATS number 70364.

FINDING 2

Requirement:

20 CFR Section 97.20(b)(1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

20 CFR Section 667.220(a) states, in part, that the costs of administration are that allocable portion of necessary and reasonable allowable costs including local grant recipients, local grant subrecipients, local fiscal agents, and One-Stop operators that are associated with specific administrative functions.

20 CFR Section 667.300(b)(1) states, in part, that a State may impose different forms or formats, shorter due dates, and more frequent reporting requirements on subrecipients.

WIAD06-4 states, in part, that adult, dislocated worker, and youth expenditures must be reported by administration and program cost categories

Observation:

We reviewed WIA Adult program invoices from ten One-Stop Centers and found that each reported administration costs to LADCSS. However, LADCSS reports those costs to the State, via the Job Training Automation (JTA) system, as program costs. The LADCSS is also reporting One-Stop dislocated worker administration expenditures in the same manner.

Additionally, we reviewed WIA Youth program invoices from five One-Stop Centers and found that these invoices do not contain a line item for reporting administration costs. Therefore, LADCSS' One-Stop Centers are not reporting youth administration costs.

Recommendation: We recommended that LADCSS reallocate, to the administration category, all PY 2006-07 adult and dislocated worker charges that it's One-Stop operators identified as administration costs and provide CRD with documentation of its actions. Additionally, we recommend that LADCSS revise its youth program invoices to include a line item for One-Stop operators to report their administration costs related to the youth program. Finally, we recommend that LADCSS provide CRD with a CAP stating how it will ensure that, in the future, administrative expenditures by its one-stop operators are reported appropriately in the JTA system.

LADCSS Response: The LADCSS stated that as part of its updated Five Year Plan to the Employment Development Department (EDD) that the Los Angeles County Workforce Investment Area is the One-Stop Operator for purposes of reporting administration costs to EDD. Therefore, all costs reported by our contractors are reported as program costs, as LADCSS reports its administrative costs as the One-Stop Operator.

State Conclusion: 20 CFR 662.400, states, in part, that the Local Board and the One-Stop operator shall specify the operator's role. That role may range between simply coordinating service providers within the center, to being the primary provider of services within the center, to coordinating activities throughout the One-Stop system.

20 CFR Section 662.410 states, in part, that the Local Board, with agreement of the chief elected official, must designate and certify One-Stop operators in each local area. The One-Stop operator is designated or certified through a competitive process; under an agreement between the Local Board and a consortium of entities that includes at least three or more of the required One-Stop partners; or under the conditions described in Section 662.420 or 662.430.

20 CFR Section 662.420 states, in part, that the Local Board may be designated or certified as the One-Stop operator only with agreement of the chief elected official and the Governor. The designation or certification must be reviewed whenever the biennial certification of the Local Board is made.

20 CFR Section 662.430 states, in part, that the Local Board, the chief elected official and the Governor may agree to certify an entity that has been serving as a One-Stop operator in a One-

Stop delivery system established prior to the enactment of WIA to continue to serve as a One-Stop operator without meeting the requirements for designation under Section 662.410.

Contrary to LADCSS' belief, as stated in its response above, an entity cannot be considered a One-Stop operator solely for the purpose of reporting administrative costs to EDD. The LADCSS neither provided documentation that it has been certified by the chief elected official and the Governor as the One-Stop operator nor provided documentation that it performs such duties as coordinating service providers within the center, being the primary provider of services within the center, or coordinating activities throughout the One-Stop system.

Therefore, we, again, recommend that LADCSS reallocate, to the administration category, all PY 2006-07 adult and dislocated worker charges that LADCSS' One-Stop operators identified as administration costs and provide CRD with documentation of its actions. Additionally, we recommend that LADCSS revise its youth program invoices to include a line item for One-Stop operators to report their administration costs related to the youth program. Finally, we recommend that LADCSS provide CRD with a CAP stating how it will ensure that, in the future, administrative expenditures by its One-Stop operators are reported appropriately in the JTA system. Until then, this issue remains open and has been assigned CATS number 70365.

FINDING 3

Requirement:

OMB Circular A-87, Attachment A (C)(3) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Observation:

During the PY 2005-06 monitoring review, we found that LADCSS allocated telephone charges according to the number of phones assigned to a specific program. When we sampled a telephone payment for \$579, we found that this expense was charged entirely to the WIA Program when WIA and non-WIA employees used the specific telephone line for the payment above. During the PY 2006-07 monitoring review, we found that LADCSS continues to allocate phone charges in this manner. However, LADCSS staff stated that in PY 2007-08, these telephone

charges will be allocated through the Administrative Management Services (AMS) cost pool, which allocates charges to all of LADCSS' programs (WIA and non-WIA). Additionally, LADCSS staff stated that they planned to back out all PY 2006-07 direct phone charges and reallocate them through the AMS cost pool.

Recommendation: We recommended that LADCSS provide CRD with a CAP, including a timeline, to reallocate its WIA and non-WIA phone charges for PY 2006-07 and to ensure that, in the future, all telephone charges are allocated based on relative benefits received. In addition, we recommended that LADCSS provide CRD with documentation that it has completed implementation of its CAP to back out all PY 2006-07 direct phone charges associated with its administrative activities and reallocate them through the AMS cost pool.

LADCSS Response: The LADCSS stated that it has made the necessary corrections and has reallocated the costs accordingly. The documentation with the corrections will be available for State review at the time of the State's next review.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. Although LADCSS stated it has reallocated the costs as recommended, CRD has not received documentation supporting the reallocation. However, CRD agrees to review this documentation at the next on-site review. Until then, this issue remains open and has been assigned CATS number 70366.

FINDING 4

Requirement: OMB A-87 Attachment A(C)(1)(j) states, in part, that for a cost to allowable it must be adequately documented.

OMB Circular A-87, Attachment B(C)(3) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

LADCSS' subrecipient contract provision, Section 1203(a) states, in part, that no performance of this Contract or any portion thereof shall be subcontracted by the Contractor without the County's prior written consent.

Observation:

We sampled four subrecipient payments and found that LADCSS did not have supporting documentation to determine if the payments were chargeable to a WIA fund account. Specifically, LADCSS reimbursed LA Works (Contract Nos. 20152 and 20183), Career Partners (Contract Nos. 20154 and 20184), Hub Cities (Contract Nos. 20151 and 20188), and Compton (Contract Nos. 20150 and 20187) for consulting services, professional allocations, professional services, and special department expense without any supporting documentation to identify the services procured by these subrecipients.

Through March 31, 2007, LADCSS reimbursed:

- LA Works (Contract No. 20152) \$160 for Consultant Services, \$18,553 for Professional Allocation, \$3,693 for Pro Services Allocated, and \$6,040 for Pro Svs Alloc;
- LA Works (Contract No. 20183) \$1,264 for Consulting Services, \$24,508 for Professional Allocation, and \$86,513 for WIA In-School Subcontractors;
- Career Partners (Contract No. 20154) \$4,428 for Contract Services and \$5,201 for Professional Services;
- Career Partners (Contract No. 20184) \$2,919 for Contract Services and \$4,520 for Professional Services;
- Hub Cities (Contract No. 20151) \$2,773 for Consultant Services;
- Hub Cities (Contract No. 20188) \$6,449 for Consultant Services;
- Compton (Contract No. 20150) \$5,853 for Special "Dept." Expense and \$2,532 for Other Contracted Services; and
- Compton (Contract No. 20187) \$8,724 for Special "Dept." Expense and \$14,116 for Other Contracted Services.

We reported a similar issue our PY 2005-06 monitoring report.

Recommendation:

We recommended that LADCSS provide CRD with documentation to justify the payments for consulting services, professional allocations, professional services, contracted services, and special department expense for the contracts noted above.

LADCSS Response: The LADCSS attached letters addressed to the subrecipients identified above requesting supporting documentation to substantiate their billings; the response to those letters was due February 29, 2008.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. The LADCSS did not provide CRD documentation to justify the payments identified above. The CRD will consider closing this finding upon receipt of LADCSS' documentation. If LADCSS is unable to provide justification for the above payments, then CRD recommends that LADCSS submit a CAP to remove the costs from the WIA account as they will be considered questioned costs for the WIA program. Until then, this issue remains open and has been assigned CATS number 70367.

FINDING 5

Requirement: OMB A-87 Attachment A(C)(1)(j) states, in part, that for a cost to allowable it must be adequately documented.

OMB Circular A-87, Attachment B(C)(3) states, in part, that a cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

The LADCSS subrecipient contract states, in part, that the following documentation is required with each rapid response (RR) invoice:

- Timesheets of staff performing RR services
- Lists of activities performed
- Employer profiles (one for each employer)
- Regional Workforce Group (RWG) 121 forms (one for each planning meeting, orientation, or workshop)
- Orientation sign-in sheets (employee signatures)
- RR Surveys (referral if employees to WorkSource Centers)
- RR Evaluation (customer satisfaction forms to be completed at the end of the orientation by the impacted worker or by the business after the business service.)
- Intervention Strategy Plan (when applicable)

- E-mail, correspondence, phone logs, etc.

Observation:

We found that LADCSS reimbursed the following subrecipients for RR services without any supporting documentation for the payments:

- Compton Career Link (Contract No. 20233) \$1,747 for August 2006, and \$2,865 for November 2006;
- Career Partners (Contract No. 20230) \$9,648 for August 2006, and \$5,070 for February 2007;
- SASSFA (Contract No. 20234) \$10,056 for August 2006, and \$9,250 for February 2007;
- Hub Cities (Contract No. 20232) \$8,693 for August 2006, and \$22,734 for February 2007; and
- LA Works (Contract 20231) \$12,498 for August 2006, and \$14,462 for February 2007.

Recommendation: We recommended that LADCSS provide CRD with documentation to support the RR payments noted above. Additionally, we recommended that LADCSS provide CRD with a CAP to ensure that, in the future, all RR payments are made only after verifying supporting documentation.

LADCSS Response: The LADCSS attached letters addressed to the subrecipients identified above requesting supporting documentation to substantiate the Rapid Response payments in question; the response to those letters was due February 29, 2008.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. The LADCSS did not provide CRD documentation to justify the payments identified above. The CRD will consider closing this finding upon receipt of LADCSS' documentation. If LADCSS is unable to provide justification for the above payments, then CRD recommends that LADCSS submit a CAP to remove these costs from the WIA account as they will be considered questioned costs for the WIA program. Until then, this issue remains open and has been assigned CATS number 70368.

FINDING 6

Requirement: 20 CFR Section 662.230(c) states, in part, that all required partners must enter into a memorandum-of-understanding (MOU)

with the Local Board relating to the operation of the One-Stop system that includes how the cost of the identified services and operating costs of the system will be funded.

20 CFR Sections 662.270 states, in part, that each partner of the One-Stop delivery system (One-Stop center) must contribute a fair share of the operating costs, which is proportionate to the use of services at the One-Stop center by individuals attributable to the partner's program. The particular funding arrangements for services and operating costs of the One-Stop delivery system must be described in a documented agreement attributable to the partner's program.

20 CFR Section 662.310(b) states, in part, that the Local Board and partners must document the negotiations and efforts that have taken place to enter into a fully executed MOU. Additionally, any failure to execute an MOU between a Local Board and the required partner must be reported to the Governor or State Board, and the State agency responsible for administering the partner's program.

WIA Directive WIAD05-6 states, in part, that in the event that a local workforce investment board (LWIB) has concluded that there is a negotiation impasse, it shall inform the affected required One-Stop partner(s) that the LWIB and the affected partners must implement the provisions of Section 662.310(b) of the federal WIA regulations.

Observation:

We found that LADCSS has been unable to ensure that RSAs are developed and implemented at its One-Stop Centers. The LADCSS funds 18 One-Stop Centers that are not part of another Local Workforce Investment Area (LWIA). Nine One-Stops indicated that they had RSAs with one or more partners (but did not provide any supporting documentation), three indicated that they did not have RSAs with any partners, five did not respond, and one provided an incomplete RSA. Similar findings were reported in PYs 2001-02, 2002-03, 2003-04, and 2004-05.

In response to the PY 2004-05 monitoring report, LADCSS stated that it was addressing the RSA issues by conducting RSA training classes at each One-Stop Center and offering consultant services to review each One-Stop Center's RSAs. Additionally, a Governance Memorandum-of-Understanding was signed by all

partner agencies and adopted by the Board of Supervisors providing LADCSS with a mechanism to obtain the information LADCSS needs to complete all RSAs. Finally, LADCSS anticipated that all RSAs would be completed in the next two years.

Recommendation: We recommended that LADCSS provide CRD with a status report and timeline to complete the CAP provided by LADCSS in PY 2004-05. In addition, we recommended that LADCSS provide a copy of the finalized RSAs to CRD. In the event that there is no success in finalizing the RSAs, we recommended that LADCSS initiate the required notification by the LWIB to the State Workforce Development Board, as cited above, and provide a copy of this report to CRD.

LADCSS Response: In December 2007, a directive was sent out to all LADCSS One-Stops requesting that they submit their MOU/RSAs to LADCSS by January 8, 2008. To date 7 of 19 One-Stops have submitted their MOU/RSAs to LADCSS. The LADCSS will send letters to the remaining One-Stops indicating that they have 30 days from the date of the letter to submit their MOU/RSAs, otherwise the One-Stops will be placed on probation and could face other sanctions, such as suspension of payments. This letter is being reviewed by LADCSS' legal counsel and will be sent out upon receipt of legal counsel approval.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. The LADCSS has not provided copies of the finalized MOU/RSAs to CRD or a timeline to complete the CAP. In addition, LADCSS failed to achieve even 50-percent of its CAP to complete its RSA three years after this issue was identified for PY 2004-05. In the event that there is no success in finalizing the RSAs, we, again, recommend that LADCSS initiate the required notification by the LWIB to the State Workforce Development Board, as cited above, and provide a copy of this notification to CRD. Until then, this issue remains open and has been assigned CATS number 70369.

FINDING 7

Requirement: 20 CFR Section 667.410(a) states, in part, that each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors.

WIAD00-7 states, in part, that the monitoring of subrecipients follow a standardized review methodology that will result in written reports which record findings, any needed corrective actions, and due dates for the accomplishment of corrective actions. Additionally, the monitoring of subrecipients require systematic follow-up to ensure that necessary corrective action has been taken.

Observation:

In PY 2005-06, LADCSS identified 46 subrecipients subject to fiscal and procurement on-site monitoring and as of June 30, 2006, all on-site monitoring of the 46 subrecipients were completed. For PY 2006-07, LADCSS identified 44 subrecipients subject to fiscal and procurement on-site monitoring and as of June 12, 2007, 38 of 44 subrecipient's on-site monitoring were completed. The LADCSS ensured CRD that the remaining on-site monitoring would be completed by June 30, 2007.

The County of Los Angeles Department of Auditor-Controller (CLADAC) conducts the on-site monitoring reviews and issues the monitoring reports on behalf of LADCSS.

However, as of June 12, 2007, CLADAC issued only 39 of the 46 monitoring reports for PY 2005-06, and all 39 of the monitoring reports had findings. For PY 2006-07, CLADAC issued only 5 of 44 monitoring reports.

For both PYs 2005-06 and 2006-07, the monitoring reports do not contain due dates for the accomplishment of corrective actions. The reports state that the recommendations will be followed-up during next year's monitoring review. Attached to each monitoring report, but dated prior to the issuance of the monitoring report, is the subrecipient's response to the findings. These responses, however, do not always include corrective action plans. After CLADAC issues the monitoring report, LADCSS issues a follow-up report to the subrecipients notifying them if the CAPs attached to the monitoring report are accepted. However, these follow-up reports do not contain due dates for the accomplishment of corrective actions. Additionally, there are seven subrecipients whose PY 2005-06 monitoring reports were issued during or after the PY 2006-07 on-site fieldwork. All seven reports contained findings.

Therefore, the LADCSS' monitoring system does not allow for systematic follow-up to ensure that necessary corrective action is completed timely before the next PY monitoring review.

Per an e-mail sent on October 3, 2007, LADCSS stated that for PY 2007-08, CLADAC will assign additional resources to the LADCSS Workforce Investment Act monitoring team to ensure that the monitoring reports are issued within 3 months from the start of the review. The CLADAC will require the subrecipients to submit corrective actions plans, with target implementation dates, within two weeks of receiving the final reports. The LADCSS will work with the subrecipients to track the subrecipients' efforts to implement the recommendations. In addition, CLADAC will report on the status of the outstanding recommendations during the subsequent monitoring reviews.

Recommendation: We recommended that LADCSS confirm that the above CAP will be implemented during PY 2007-08.

LADCSS Response: The LADCSS stated that based on its review of the documentation provided to LADCSS by the CLADAC, the PY 2007-08 monitoring reports have been issued within the three month timeline noted above. The LADCSS further stated that it will continue to work with all subrecipients in order to resolve the findings reported by CLADAC. However, in order to resolve a majority of the findings reported, LADCSS will need to reissue several Program Directives to our contractors; it will take up to 8 months to reissue all directives.

State Conclusion: Prior to our receipt of LADCSS' response to the draft report on February 25, 2008, CRD obtained additional information while onsite conducting LADCSS' program review in January 2008. We found the following:

For PY 2005-06: CLADAC had issued all 46 monitoring reports. The final PY 2005-06 monitoring report was issued June 15, 2007; all 46 reports had one or more finding still open. The LADCSS PY 2005-06 summary tracking sheet identifies approximately \$491,052 in questioned costs that have not been resolved. This figure does not include open findings with questioned costs (such as issues related to participant eligibility or over billings), that have not been calculated.

For PY 2006-07: CLADAC had not issued 11 of 43 PY 2006-07 monitoring reports including reports for LA Works, SASSFA, and Hub Cities, who collectively received approximately \$5 million dollars in funding for PY 2006-07. In addition, the LADCSS PY 2006-07 summary tracking sheet identifies approximately \$106,615 in questioned costs that have not been resolved. Similarly, this figure does not include open findings with questioned costs (such as issues related to participant eligibility or over billings) that have not been calculated.

For PY 2007-08: CLADAC had not issued 38 of 42 PY 2007-08 monitoring reports. Of the four reports issued, a CAP was developed for each issue area, but some did not include specific due dates.

Based on LADCSS' response and the information provided by LADCSS in January 2008, we cannot resolve this issue at this time.

We recommend that LADCSS:

- Provide CRD with a CAP and timeline, for LADCSS to conduct follow-up on open issues from both the PY 2005-06 and 2006-07 monitoring reports including when/how questioned costs will become part of a debt collection process. Additionally, the CAP should include how timelines/CAPs will be established for entities that do not provide a specific timeline in the CAP attached to the final report or disagree with the recommendation and provide no CAP and/or timeline. Finally, the CAP should include how LADCSS will ensure that all PY 2006-07 monitoring will be completed and the reports issued.
- Because LADCSS already has directives in place, we recommend that LADCSS explain how the re-issuance of the same directives will resolve the deficiencies in its program. Otherwise, we recommend that LADCSS specify the actions it will take to ensure that its subrecipients implement the necessary corrective action to resolve the identified issues.

Until then, this issue remains open and has been assigned CATS number 70370.

FINDING 8**Requirement:**

OMB Circular A-133, Subpart B, Section 200 states, in part, that Non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year. Further, Subpart B, Section .235 (c)(1) states, in part, that the audit report shall be submitted within the earlier of 30 days after receipt, or nine months after the end of the audit period. Additionally, Subpart D, Section 400 (d)(4) states, in part, that pass-through entities must ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

20 CFR Section 667.500(a) states, in part, that a State must utilize the audit resolution, debt collection and appeal procedures that it uses for other Federal grant programs. If a State does not have such procedures, it must prescribe standards and procedures to be used for this grant program.

WIAD05-17 states, in part, that subrecipients that award WIA funds to lower-tiered subrecipients must have the following:

- Initial Determination Letter that includes whether the costs are allowed or disallowed, including the reasons with appropriate citations; acceptance or rejection of any corrective action taken to date; possible sanctions; and, the opportunity for informal resolution of no more than 60 days from the date of the Initial Determination.
- Final Determination Letter that includes a reference to the Initial Determination; summation of the informal resolution meeting, if held; questioned costs allowed and the basis for allowance; rights to a hearing; and, status of the administrative findings.

Observation:

During our PY 2005-06 monitoring review, we reviewed ten of LADCSS' subrecipient audit resolution files, including applicable Initial/Final Determination letters, and found that LADCSS failed to follow required audit resolution procedures. During our PY 2006-07 monitoring review, we followed up on the status of the audit resolution files reviewed during the PY 2005-06 review and found that although the audit resolution issues were resolved, the

audit resolution Initial/Final Determination letters did not contain all of the required information noted above. In addition, we reviewed two additional audit resolution files and found that the Initial/Final Determination letters did not contain all of the required information. The LADCSS stated that it would develop templates to ensure that the Initial/Final Determination letters contained all of the required information. Finally, for 16 of 25 subrecipients whose PY ended June 30, 2006, LADCSS did not receive the subrecipients single audits until after March 31, 2007.

Recommendation: We reported similar issues in prior year monitoring reports and LADCSS stated it would ensure that its Initial/Final Determination letters contain all of the required elements. However, as observed above, LADCCS failed to follow the bulleted procedures noted above. We recommended that LADCSS provide CRD with a CAP specifying how it will immediately apply the audit resolution procedures contained in WIAD05-17 to all future audits and ensure that it receives its subrecipient audit reports in a timely manner as prescribed in OMB Circular A-133.

LADCSS Response: The LADCSS stated that it will ensure that during the audit resolution process beginning with the PY 2006-07 audits submitted by its contractors that Initial/Final Determination letters issued contain the required elements as included in WIAD05-17. In addition, LADCSS received all PY 2006-07 audits from its contractors within 9 months and if LADCSS did not receive the audit within the required timeframe, LADCSS suspended contractor payments until the audit was received.

State Conclusion: The LADCSS' stated corrective action should be sufficient to resolve this issue and no further corrective action is required. However, we cannot close this issue until we verify, during a future onsite visit, LADCSS' successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 70371.

FINDING 9

Requirement: 20 CFR Section 667.500 states, in part, that the Governor is responsible for resolving findings that arise from the State's monitoring reviews, investigations and audits and that the State must utilize the audit resolution, debt collection and appeal procedures that it uses for other Federal grant programs. If a

State does not have such procedures, it must prescribe standards and procedures to be used for this grant program.

WIAD01-5 states, in part, that each LWIA must establish, describe, and maintain written debt collection procedures that include:

- The settlement of all debts resulting from fraud, malfeasance, misapplication of funds or other serious violations or illegal acts must be returned to CRD immediately upon their receipt.
- The maintenance of records that document the actions taken with respect to the debt collection including why the actions were taken to support their decisions.
- All WIA debts must be paid within 30 calendar days of the date on which the debt was established as final unless other arrangements have been documented and approved by CRD, the LWIA, and (when appropriate) the subrecipient.
- When the debtor is unable to make restitution in full, an installment repayment agreement may be negotiated. Installment repayment agreements will be of short duration, from 3 to 12 months, with a maximum of 36 months. The length of the repayment agreement will be negotiated based on the size of the debt and the debtor's ability to pay. The CRD must approve all installment repayments agreements.

Observation: We confirmed that LADCSS' June 13, 2005 Revised Debt Collection directive does not include the procedures required in WIAD01-5.

Recommendation: We recommended that LADCSS update its Debt Collection directive to include the information noted above and provide CRD with a copy.

LADCSS Response: The LADCSS provided CRD a copy of its revised WIA Debt Collection Procedures that contains the information noted above.

State Conclusion: We consider this finding resolved.

FINDING 10

Requirement: 20 CFR Section 667.630 states, in part, that information and complaints involving criminal fraud, waste, abuse or other criminal activity must be reported immediately through the Department's Incident Reporting System to the DOL Office of Inspector General (OIG).

WIAD02-3 states, in part, that lower-tier subrecipients will establish, document, and implement procedures to immediately notify the funding entity of any suspected or proven fraud, abuse, or other criminal activity involving WIA-funded activities. Additionally, funding entities must provide written notification to lower-tier subrecipients regarding their responsibilities to be alert for instances of fraud, abuse, and criminal activity committed by staff, contractors, or program participants and to report all such instances to the funding entity, the Office of the Inspector General (OIG), and CRD immediately. Proof of this notification must be maintained in the funding entity's files. Finally, entities are required within one workday of detection or discovery of information alleging fraud, abuse, or other criminal activity involving WIA funds, to file a written incident report.

Observation: The LADCSS' August 23, 2004 Incident Reporting Policy requires County WIA service providers to report incidents of fraud, abuse, and criminal activity to the County of Los Angeles WIA Worksource Office. The directive states that Los Angeles County will then investigate and report these incidents to CRD and OIG. Additionally, LADCSS was unable to provide proof of written notification to its lower-tier subrecipients.

Recommendation: We recommended that LADCSS revise its Incident Reporting Policy to clarify that the funding entity, OIG, and CRD must be notified immediately of all incident reports. Additionally, we recommended that LADCSS provide written notification of its revised policy to lower-tier subrecipients. Finally, we recommended that LADCSS provide CRD with proof of this notification.

LADCSS Response: A revised Incident Reporting Policy directive was issued to all of LADCSS contractors in January 2008 that included all of the funding entities that must be notified.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time. Although LADCSS provided CRD with a copy of revised Incident Reporting policy, LADCSS did not provide proof of written notification to its lower-tier subrecipients. We, again, recommend that LADCSS provide CRD with proof of notification to its lower tier subrecipients. Until then, this issue remains open and has been assigned CATS number 70373.

PROCUREMENT REVIEW RESULTS

While we concluded that, overall, LADCSS is meeting applicable WIA requirements concerning procurement, we noted instances of noncompliance in the following areas: procurement and contract provisions. The findings that we identified in these areas, our recommendations, and LADCSS' proposed resolution of the findings are specified below.

FINDING 11

Requirement: 29 CFR Section 97.36(b)(9) states, in part, that subgrantees will maintain records sufficient to detail the significant history of a procurement.

29 CFR Section 97.36(c)(1) states, in part, that all procurement transactions will be conducted in a manner providing full and open competition.

29 CFR Section 97.36(d)(3) states, in part, that request for proposals (RFP) will be publicized and identify all evaluation factors and their relative importance, and subgrantees will have a method for conducting technical evaluations of proposals received and for selecting awardees.

29 CFR Section 97.36(f)(1) states, in part, that a cost or price analysis must be performed in connection with every procurement transaction.

LADCSS' subrecipient subcontract provision, Section 1203(a) states, in part, that no performance of this Contract or any portion thereof shall be subcontracted by the Contractor without the County's prior written consent.

LADCSS' Out-of-Town-Travel contract provision, Section 1207 states, in part, that the Contractor shall not incur any expenditure

for travel outside of Los Angeles County without prior written approval of the County.

Observation:

During the PY 2003-04 Program Monitoring Review, we found that LADCSS's WIA Youth subrecipient, LA Works, was participating in a youth program provided out-of-state. LA Work's College Works program is a two-week program whereby participants are housed at University of New Mexico (UNM) dorms while attending half a day of Scholastic Admissions Test (SAT) preparatory classes and half a day of work experience.

In the PY 2003-04 Program Draft Monitoring Report, CRD requested the following:

- Additional documentation substantiating that costs associated with the College Works program was necessary, reasonable, and allowable under Federal regulations;
- A copy of an approval letter sent to LA Works approving continuation of the College Works program;
- A list of WIA youth participants who participated in the College Works program since its inception; and
- A breakdown of all costs associated with the New Mexico College program charged to WIA.

During the PY 2006-07 Program Monitoring review, LA Works provided CRD with copies of letters between LA Works and LADCSS from May 12, 1997, to July 7, 2004. These letters describe the new College Works program, demonstrate LADCSS' conditional approval for LA Works to send participants to UNM in 1997, requests that LA Works pay airfare out of non-Job Training Partnership Act funds, and expresses LADCSS' concerns regarding the College Works program taking place out of State. Additionally, the letters addressed LA Work's attempts to contact California colleges in 1998 and 2004. Finally, the letters provide LA Work's reasons for utilizing an out-of-state college as well as arguing the allowability, necessity, and reasonableness of the costs associated with the UNM program. LA Works also provided a copy of a letter and mailing list used to contact California Colleges in October 2004, as well as summary of costs and list of participants for PYs 2000-01 through 2006-07. LA Works also provided copies of the contracts between LA Works and UNM from PYs 2002 through 2006.

On January 24, 2007, the LA Works Chief Operations Officer stated that in 2004, approximately 200 letters of interest were sent to several California colleges and only two colleges responded. After subsequent conversations neither of the two colleges expressed interest in the program and LA Works decided that conducting an RFP procurement process for the College Works program would not be worth the time and cost.

Additionally, we found that Hub Cities participated in the College Works program at UNM in PYs 2005-06 and 2006-07. However, we were unable to confirm Hub Cities' participation in the College Works program prior to PY 2005-06. Hub Cities provided information regarding the costs of the UNM program and all costs, including airfare, are paid for out of WIA funds. Although we requested procurement documentation, Hub Cities did not provide any information on the procurement process leading to the contracts with UNM.

During the PY 2006-07 Fiscal and Procurement Monitoring Review, LADCSS informed CRD that Hub Cities requested approval from LADCSS to send 15 participants to UNM per the out-of-town contract provision noted above. The LADCSS requested that Hub Cities provide documentation ensuring the proper procurement of Hub Cities' contract with UNM. However, Hub Cities did not provide this documentation. Additionally, we requested that LADCSS provide documentation on LA Works' continued participation in the UNM program and any procurement documentation not already provided by LA Works. The LADCSS made the request to LA Works, but LA Works did not respond to LADCSS' request.

Finally, LADCSS was unable to identify all subrecipients who are participating in the UNM program and was unable to provide documentation to show that either LA Works or Hub Cities obtained prior written approval from LADCSS to contract with UNM or to incur expenditures for travel outside of Los Angeles County.

Recommendation: We recommended that LADCSS:

1. Identify all subrecipients who participated in the College Works program at UNM in PY 2006-07 and who will be participating in PY 2007-08;
2. Provide CRD with documentation to substantiate that all WIA costs, including airfare of the College Works program operated by LA Works, Hub Cities, and any other subrecipients was approved by LADCSS; and
3. Provide CRD with documentation demonstrating that the College Works program was properly procured by all participating subrecipients.

LADCSS Response: The LADCSS stated that on July 16, 2007, a letter was sent to Hub Cities denying them approval of the New Mexico College Works Program until issues relating to LA Works' procurement are resolved with CRD.

Additionally, on February 8, 2008, LADCSS sent LA Works a letter requesting that it provide LADCSS with documentation to support its procurement of the New Mexico College Works Program. LA Works' response to the letter was due February 29, 2008.

State Conclusion: Based on the LADCSS' response, we cannot resolve this issue at this time. The LADCSS did not identify all subrecipients who participated in the College Works program, provide documentation to substantiate that all WIA costs were approved by LADCSS, or demonstrate that the College Works program was properly procured by all participating subrecipients. We, again, recommend that:

1. Identify all subrecipients who participated in the College Works program at UNM in PY 2006-07 and who will be participating in PY 2007-08;
2. Provide CRD with documentation to substantiate that all WIA costs, including airfare of the College Works program operated by LA Works, Hub Cities, and any other subrecipients was approved by LADCSS; and

3. Provide CRD with documentation demonstrating that the College Works program was properly procured by all participating subrecipients.

Until then, this issue remains open and has been assigned CATS number 70374.

FINDING 12

Requirement:

29 CFR Section 97.36(b)(9) states, in part, that grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement.

29 CFR Section 97.36(c)(1) states, in part, that all procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Section 97.36. One of the situations considered restrictive of competition includes any arbitrary action in the procurement process.

29 CFR Section 97.36(c)(3) states, in part, that grantees will have written selection procedures that will ensure that all solicitations identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

Observation:

On October 26, 2006, LADCSS issued a Request for Quotation to procure consultants to write a minimum of four Requests for Proposals (RFP). The LADCSS chose two consultants Mr. David Shinder and Ms. Vicki Doolittle. Each consultant was awarded a contract for \$12,500. However, the contracts for Mr. Shinder and Ms. Doolittle state that they contracted to develop a minimum three RFPs. The LADCSS had no documentation to explain this discrepancy. Additionally, during the bidding process for this request for quotation, the due date was changed from November 1, 2006 to November 6, 2006. The LADCSS had no documentation as to why the due date was changed or how the change in date was made known to potential bidders. Finally, LADCSS did not have a copy of the bids submitted by the awarded consultants or proof of receipt demonstrating when the bids were submitted.

Recommendation: We recommended that LADCSS provide CRD with the following:

- Documentation demonstrating why the scope of work was changed from a minimum of four RFPs in the request for quotation to a minimum of three RFPs in the awarded contracts;
- Documentation substantiating why the proposal due date was changed and how bidders were informed of this change; and
- Provide a copy of the bids submitted by the awarded consultants and proof of receipt demonstrating when the bids were submitted.

LADCSS Response: The LADCSS stated that the bid was to recruit for a consultant to work on 4 RFPs, however, when the contract was entered into the scope of work changed due to the fact that LADCSS had only 3 RFPs to release. Thus, the scope of work was revised to only include 3 RFPs instead of 4. The due date of the procurement was amended from November 1, 2006 to November 11, 2006.

State Conclusion: Based on LADCSS' response, we cannot resolve this issue at this time.

- Mr. Shinder's proposal stated that he would be able to complete 4 RFPs for \$20,400. Ms. Doolittle's proposal stated that she would be able to complete 4 RFPs for \$25,600.
- Mr. Shinder and Ms. Doolittle were both awarded \$12,500 contracts to complete 3 RFPs together.
- The LADCSS did not provide documentation that demonstrates why \$25,000 was given to two consultants to write three RFPs, when one consultant was able to write 4 RFPs for between \$21,400 and \$25,600.

Additionally, LADCSS provided documentation showing that the due date was changed, but not why it was changed or how bidders were informed of this change.

Finally, LADCSS did not provide proof of receipt demonstrating when the bids were submitted by Mr. Shinder and Ms. Doolittle.

We recommend that LADCSS provide CRD with the following:

- Documentation demonstrating why \$25,000 was given to two consultants to write three RFPs together, when one consultant was able to write 4 RFPs for between \$21,400 and \$25,600
- Documentation substantiating why the proposal due date was changed and how bidders were informed of this change; and
- Provide proof of receipt demonstrating when the bids were submitted.

Until then, this issue remains open and has been assigned CATS number 70375.

FINDING 13

Requirement:

29 CFR Section 97.35 states, in part, that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

29 CFR Section 97.36(i)(8-9) states, in part, that a grantee's and subgrantee's contracts must contain a notice of the awarding agencies requirements and regulations pertaining to patent rights with respect to any discovery or invention which arises or is developed in the course of or under such contract and requirements and regulations pertaining to copyrights and rights in data.

20 CFR Section 667.200(e) states, in part, that all WIA title I grant recipients and subrecipients must comply with the restrictions on lobbying which are codified in the Department of Labor (DOL) regulations at 29 CFR part 93.

Observation:

The LADCSS' subrecipient contracts include a debarment provision that defines a responsible contractor, refers to a County Code, and discusses the process undertaken to debar a contractor, but does not require the contractor to certify that it is not already debarred, suspended, proposed for debarment etc. Additionally, LADCSS' contracts do not contain a provision regarding patent rights, copyrights, and rights in data. Finally,

LADCSS' contract provision regarding lobbying refers to a County Code, but does not reference the lobbying restrictions codified in DOL's regulations at 29 CFR Part 93.

Recommendation: We recommend that LADCSS provide CRD with a CAP to ensure that, in the future, its contracts include the provisions cited above, include a debarment certification.

LADCSS Response: The LADCSS has taken measures to incorporate the debarment certification into the Fiscal Year 2008 Request for Proposals for the WIA programs. In addition, LADCSS states that all future contracts will be updated to include the latest regulations including, but not limited to, patent rights, copyrights, and reference to lobbying restrictions.

State Conclusion: The LADCSS' stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future onsite visit, LADCSS' successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 70376.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than June 20, 2008. Please submit your response to the following address:

Compliance Monitoring Section
Compliance Review Division
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is LADCSS' responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain LADCSS' responsibility.

Ms. Cynthia D. Banks

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May 22, 2008

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Mr. Jim Tremblay at (916) 654-7825 or Ms. Mechelle Hayes at (916) 654-8015.

Sincerely,

A handwritten signature in black ink, appearing to read "Jessie Mar", with a large, stylized initial "J" and "M".

JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Division

cc: Shelly Green, MIC 45
Jose Luis Marquez, MIC 50
Norma McKay, MIC 50
Linda Patton-Finch, MIC 50